DOCUMENT RESUME

ED 300 490 UD 026 475

AUTHOR	Downs, Anthony
TITLE	America's Educational Failures: How Will They Affect Real Estate?
INSTITUTION	Brookings Institution, Washington, D.C.
SPONS AGENCY	Salomon Brothers, New York, NY.
PUB DATE	May 88
NOTE	12p.
AVAILABLE FROM	Salomon Brothers, One New York Plaza, New York, NY 10004.
PUB TYPE	Viewpoints (120)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Community Role; *Economic Development; *Educational Finance; Educational Improvement; Educational Quality; Elementary Secondary Education; *Labor Force Development; Labor Needs; Outcomes of Education; Property Taxes; *School Business Relationship; School Community Relationship; *School Effectiveness; School Taxes; Urban Problems; Urban Schools
IDENTIFIERS	*Property Values; *Urban Development

ABSTRACT

Owners of all types of real properties, especially owners and occupants of big city downtown properties, have a high investment in the educational quality of the local labor force, and should encourage improvement even if it results in increased property taxes. Every real estate investment is "locked in" to the specific geographic location of the property. The long-term prosperity, and market value, of every property depends on the long-run economic viability of the general area in which it is located. A key ingredient in the area's long-run viability is the quality of the labor force available to firms located there. If the quality of the area's labor force is low, the area's overall ability to attract new firms and retain existing ones will deteriorate. The change will weaken the demand for whatever real property is located there. Moreover, the importance of the quality of the labor force as a locational factor is increasing because of rising demand for high technology worker skills. The deterioration of educational quality is especially debilitating in large cities. Property owners should take an active role in ensuring that local schools use resources effectively to improve educational performance. (FMW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED300490

11-10-88

Salomon Brothers Inc

Bond Market Research — Real Estate

America's Educational Failures: How Will They Affect Real Estate?

by
Anthony Downs
Senior Fellow, The Brookings Institution,
Consultant Member, Salomon Brothers Inc
Real Estate Advisory Board

May 1988

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Anthony Downs
Brookings Institute

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

UD026475

The views in this article are solely those of the author and not necessarily those of Salomon Brothers Inc, the Brookings Institution, its Trustees, or its other staff members.

The author wishes to thank Adele Hayutin and Carmela Nardi for their assistance in the preparation of this report and Meredith R. Levy for her editorial guidance.

America's Educational Failures: How Will They Affect Real Estate?

by
Anthony Downs

Introduction

One of America's gravest problems is the failure of its educational system. U.S. schools are not providing millions of young people with the basic training and knowledge necessary for them to operate effectively in the modern world. This failure will have many negative repercussions for U.S. society as a whole, but it is going to be particularly damaging to real estate, strange as that may seem. Big city property owners of all types — especially those who own downtown office space — are highly vulnerable to the failings of the U.S. educational system. They will suffer, because the deteriorating quality of the local labor supply will undermine the long-run viability of economic activity in such cities.

In this report, we explore the nation's educational failings and show why they are important to the real estate industry, in general, and to owners and occupants of big city downtown properties, in particular. We also point out that the appropriate response to this situation by real property owners is to accept willingly — even to encourage — higher tax burdens on their properties to improve the nation's school systems.

The Gross Inadequacies of America's Educational System

The American educational system is failing to provide millions of children who attend its public schools with quality educations. During the 1980s, several "blue ribbon" commissions, committees and other groups have analyzed the performance of the American school systems, and all of them have found it seriously deficient.[1] The basic knowledge of American students is grossly inadequate to equip them to compete with citizens of other nations in an integrated world economy, or to perform properly the tasks of good citizenship in a democracy.

For example, a recent test of U.S. history and literature given to a national structured sample of 7,812 eleventh-grade students resulted in an average score in the 50% range in both subjects — significantly below the traditional "passing" mark of 60% or 65%. As the authors of this test stated, "*The students' overall performance is unsatisfactory . . . The average score for all top quartile students (those whose performance placed them in the top 25 percent of the distribution) was in the 70s, i.e., in the C range, on both history and literature — certainly not an impressive performance by our best students.*" [2]

Only 32% of the tested students correctly placed the date of the Civil War within the proper half century on a multiple-choice test. The authors of this study believe that, "*It is impossible to avoid the conclusion that something is gravely awry . . . our eleventh-graders as a whole are ignorant of much that they should know [Their generation] and generations to follow are at risk of being gravely handicapped by that ignorance upon entry into adulthood, citizenship, and parenthood.*" [3]

The testers do not blame this outcome on the students; instead, they believe the fault lies with the parents, teachers and school administrators. These tests were taken by students from all parts of the nation, including big cities and suburbs.

---

[1] See, for example, *A Nation at Risk*, the National Commission on Excellence in Education, U.S. Government Printing Office, Washington, D.C., 1983; *A Nation Prepared: Teachers for the 21st Century*, the Task Force on Teaching as a Profession, Carnegie Forum on Education and the Economy, Washington, D.C., May 1986; and *Becoming a Nation of Readers*, the Commission on Reading, U.S. Department of Education, Washington, D.C., 1985. This last study was jointly sponsored by the National Institute of Education, the National Academy of Education and the Center for the Study of Reading.

[2] See *What Do Our 17-Year-Olds Know?*, Diane Ravitch and Chester E. Finn, Jr., Harper and Row, New York, 1987, pp. 45-46.

[3] *Ibid.*, pp. 200-201.

Thus, the United States is clearly not persuading its young people to invest enough time and effort in their schooling to produce the knowledge necessary to serve them well into the future. In fact, most students in the study spent more time watching television than doing their homework: Only 12.5% studied for two hours or more each day, while 52.9% of the students watched television for three or more hours.[4]

The resulting educational deficiencies are greater among black and Hispanic students than among white students and other groups.[5] This fact holds true even though there have been recent improvements in minority group test scores relative to overall national test scores. For example, on the Scholastic Aptitude Test (SAT) mathematics test, the average scores of black students were 27% below those of white students in 1975 and 23% below in 1984.[6] Minority group members already comprise more than 25% of all American children under the age of 16; they will comprise even higher fractions in the future.

Moreover, minority group students are concentrated within the school systems of the nation's largest cities. A majority of public school students in most of the 25 largest U.S. cities belongs to minority groups, even if the majority of the overall populations in those cities is white. Those large cities also contain the greatest concentrations of households who do not speak English in their homes. Therefore, such households send to school children who do not know English very well, if at all. This situation clearly imposes an educational handicap on these students and their teachers. In some San Francisco schools, for example, more than half of the students do not speak English when they first attend school. Moreover, those students come from diverse backgrounds; thus, it is difficult for the public school systems to find teachers who are fluent in all of the languages concerned. Yet, if teachers cannot speak to these children in their own languages, it is hard to teach them English, let alone the other subjects that they must learn.

In addition, many big-city school systems contain large numbers of students who come from poor families that do not place a high value on education. Some homes are single-parent homes headed by teenage mothers living in overcrowded public housing projects. Most of these parents do not pressure their children to study or stress the value of performing well in school. In addition, their homes do not have adequate space or quiet in which to study effectively. When such students make up the majority of students in a school, it is extremely difficult for teachers to do an effective teaching job.

In addition to having to function in such adverse environments, many big city public school systems suffer from educational rigidities that are imposed by teachers' unions and bureaucratic administrations. Comparisons of the performances of private school and public school systems in big cities that must cope with similar types of students have shown repeatedly that private schools produce superior results from their students at a significantly lower cost.[7] To some extent, this statistic

---

[4] About 47.1% of the students tested watched zero to two hours of television per day; another 43.8% watched three to five hours; and 9.1% watched six or more hours. The average test performance concerning knowledge of history declined from 291.3 among the first group to 282.1 among the second group and 267.0 among the third group. In contrast, only 12.5% of all students studied for more than two hours per day. About 18.4% did not study; 18.0% studied for less than one half hour; 33.3% studied for one hour; and 19.8% studied for two hours. Test scores also varied directly with the amount of homework completed each day. See *What Do Our 17-Year-Olds Know?*, Diane Ravitch and Chester E. Finn, Jr., Harper and Row, New York, 1987, pp. 149, 152-153.

[5] In this study, if the average scores of all students in history and literature are set at 100, white students averaged scores of 102.4 in history and 101.7 in literature; black students averaged scores of 92.3 and 93.9, respectively; and Hispanic students averaged scores of 92.1 and 92.9, respectively. Thus, the scores of black students were an average 8.8% below those of white students, and the scores of Hispanic students were an average 9.4% below those of white students. *Ibid.*, pp. 133.

[6] See *Trends in Educational Achievement*, Congressional Budget Office, Washington, D.C., April 1986, p. xviii.

[7] See *Public and Private Schools: The Impact of Communities*, James S. Coleman and Thomas Hoffer, Basic Books, New York, 1987, pp 57-95.

results from the legal requirement that public schools accept and retain all students, regardless of how disruptive they are in class. But there is little doubt that the very nature of massive big city public school bureaucracies is a further handicap on their ability to perform well, although there are a few exceptions in every big city.

Why Big City School Failures Affect Big City Real Estate

The inadequate educations received by many students in America's big cities are evident in the steady deterioration in the quality of the labor forces in those cities. In these areas, workers have fewer basic skills and inferior working habits (increased lateness and absenteeism). In the long run, these conditions will undermine the viability of many economic activities within such cities, which must rely heavily on their labor force. These activities include most tasks performed in office buildings, hotels, industrial buildings, hospitals, and retail stores — in short, in all types of real properties. People who operate the types of firms that could operate any place are increasingly likely to shun sites in big cities that offer poor-quality labor forces.

This situation creates a significant handicap for real estate owners in such cities. For example, when American Airlines moved from New York City to Dallas several years ago, it discovered the following: (1) Dallas employees worked 8.0 hours per day, compared with the 7.5 hours contributed by the New York workers; (2) absenteeism and lateness were lower among the Dallas workers; and (3) working skill levels were higher among Dallas workers, on average. The resulting labor cost savings more than compensated for the expenses of moving within a relatively short period of time. True, New York has many advantages over Dallas in terms of its access to the financial community, the presence of a larger and more diverse labor pool, and greater cultural diversity and depth. Yet, many of these advantages are becoming more widely available almost anywhere because of the effects of telecommunications and computers. Still, poor-quality labor and a lack of efficiency are damaging to any firm, no matter where it is located or how it is linked to the rest of the world through telecommunications.

Owners and operators of real estate that is located in such cities are vulnerable to this situation, because they cannot move their properties to other places. Hence, they cannot adopt the tactic used by industrialists of shifting their productive facilities elsewhere — even overseas — to take advantage of lower wages or more skilled workers or both. No one can move an office building or a shopping center from central Detroit, Michigan, to suburban Phoenix, Arizona, because the economic climate is better in Phoenix.

However, the operators and managers of potentially mobile firms can engage in such locational shifts to escape low-quality local labor forces. Such shifts undermine the local market for the type of real estate that would house such workers. In an age of worldwide telecommunications, many types of office workers can be located anywhere in the United States or even the world. Hence, if large cities do not have the caliber of workers necessary to perform office tasks well, those tasks will be performed in other parts of the world, as has happened with many industrial jobs.

Therefore, in the overall competition among locations for relatively mobile economic activities, those cities with particularly poor school systems will not be able to compete over the long run with cities that offer better education systems. This condition will become increasingly important in the future, because more economic activities will be of a "high tech" nature. Therefore, they will be highly dependent on skilled workers and extremely "footloose" in terms of their ability to choose locations.

Downtown Big City Real Estate Is Especially Vulnerable

Owners and operators of real estate in the downtown areas of big cities are especially vulnerable to the long-run negative effects of deteriorating school systems on the demand for their space. Workers in downtown areas of big cities are likely to be drawn from the city's residents, because these areas are closer to inner-city housing neighborhoods than to the outlying suburbs. Thus, commuting downtown is easier from within the city than from the suburbs, especially in huge metropolitan areas such as Los Angeles, Houston, Chicago. New York, San Francisco, and Boston. Big cities are also more likely to have public transportation systems that link their outlying neighborhoods to their downtown office districts.

Many downtown office workers commute in from suburban areas, rather than from the central cities in which the office space is located. Yet in many big cities, a significant fraction of all office workers is drawn from the central city population and has been educated in its schools. Moreover, the dependence of big city downtown office space on the use of city residents as workers is likely to increase in the future for several reasons.

First, rising traffic congestion in suburban areas and in the corridors from suburban areas into downtown areas makes the commute downtown from the suburbs more difficult than the commute from inner-city neighborhoods. Yet suburban traffic congestion is becoming worse in nearly all metropolitan areas, especially in the large areas.

Second, the impending shortage of young entrants into the labor force will increase the dependence on inner-city workers. The annual overall growth of the U.S. labor force in the 1990s will fall to about one half of its average size in the 1970s. This change will create absolute labor shortages in some prosperous areas — as have already occurred in New England. Young low-wage workers will be in especially short supply, particularly in suburban areas, where many affluent young people do not want to work for minimum wages. Hence, there will be increased pressure to employ lower-skilled workers who have not been employed in office jobs in the past. The largest available pool of such workers consists of persons living in low-income neighborhoods within large cities, where unemployment rates have traditionally run high. These workers are precisely the people whose educations have been the most below par because of the poor performance of big city school systems.

Third, the increasing shortage of suburban housing that is affordable to low- and moderate-income households will increase the importance of inner-city labor forces to owners and users of downtown office space. A combination of rising land costs and burgeoning local antigrowth regulations is driving suburban housing costs up faster than average household incomes are rising. Thus, workers who receive the relatively low wages of low-level office workers will be unable to afford to live in the suburbs. Hence, more such workers will have to reside within central cities and send their children to public schools.

Under these circumstances, if downtown office and other labor-using firms cannot draw on reasonably competent persons from the city's population, those firms will be tempted to move to outlying locations, where they can tap into a better-qualified labor force. But even this strategy may not work during the coming period of rising suburban labor shortages, because few affordable housing units will be available in most suburban areas.

Thus, once a firm decides to relocate out of a big city downtown area to improve the quality of its work force, it may extend its horizons by looking at other metropolitan areas, as well as at alternative locations within the

same area. Hence, over the long run, the poor performance of a large city's public school system may impose a job-attraction/job-retention handicap on its entire metropolitan area — not just on the city itself.

Approaches to Improving the American Education System

Improving the nation's poor overall educational performance will not be an easy task, because there are no simple and fast remedies to its underlying causes. A weakening family structure, not only in the poverty areas of large cities, but throughout the country is one basic cause for the failure. More families with children are being affected by divorce, and heavy responsibilities are placed on single-parent adults. In addition, 5%-10% of the nation's children under 16 lives in big city neighborhoods, which are dominated by a poverty-stricken "underclass." These areas are filled with crime, drugs, unemployment, gangs, and other forces that are extremely adverse to educational achievement. Long-range programs that are aimed at changing these environments and the opportunities available to the people who live in them are necessary to improve their poor educational systems.

Truly remedying our poor education performance will probably require a radical restructuring of many existing school systems, especially those that are located in big cities. This restructuring could include starting school at age three for many children, lengthening the school year (as in most other developed nations), breaking up large school systems into smaller, more manageable systems, shifting more responsibility and authority to principals of individual schools, providing prenatal and postnatal counseling to many mothers — especially teenage mothers — and encouraging competition among individual schools.

Another aspect of any successful approach will be to improve the quality of teachers and administrators by raising salaries, upgrading educational backgrounds and modifying the seniority system of teacher assignment demanded by many unions.

Any effective approach will need to contain many disparate elements, some not occurring in schools at all. In addition, it will require a persistent, high-priority effort by the U.S. public and governments at all levels. Furthermore, it will require a tremendous monetary investment — more than is currently available — although money alone certainly cannot solve this problem.

Why Improving America's Schools Will be Costly to Real Estate

Clearly, we must undertake serious and immediate efforts to improve the performance of our educational systems. Otherwise, the United States will be unable to remain economically competitive in the integrated world markets of the future. Massive improvements are needed throughout the entire educational system as it now functions in all regions, including suburbs, as well as big cities, judging from the results of the tests described earlier. All of the commissions and task forces that have recently studied our educational performance agree with this conclusion. However, the greatest need for improvement surely exists within the public school systems of our largest cities.

Without doubt, improving our school systems will cost money, which must come from higher taxes. Even if the Federal Government awards higher priority to improving our educational system than it has under the Reagan Administration, much of this additional money will have to be raised by state and local governments — especially local governments, which provide most of the school funding in most areas. Nearly all local school finance

systems rely heavily on real estate property taxes. Hence, improving the nation's schools will almost certainly impose new costs directly on real property owners. Those owners cannot escape such costs by moving to other localities because of the fundamental immobility of real estate.

Thus, real property owners have a double motive for exhibiting a high degree of interest in how the school systems in their communities perform. On the one hand, real property owners have a significant stake in improving the quality of the local labor forces on which their tenants depend for workers. On the other hand, those owners are going to pay a large share of the added funds necessary to achieve such quality gains.

Furthermore, real property owners have a direct economic stake in the performance of their local school systems if their tenants have to engage in remedial training and education. In areas in which public schools produce poorly trained students, firms that are forced to hire these students as workers may have to offer extensive additional training to prepare them for productive work. They will be required to provide remedial education and training in basic work skills through private education efforts. These efforts will be costly enough to increase the basic cost of the firms' performing business in the localities concerned. This additional cost will essentially compete with the cost of renting space in these localities. Firms faced with this situation may pressure their landlords to reduce rents, or at least not to increase them as much as they might like to, to compensate for the extra cost of doing business. The alternative might be to have the tenants concerned move to other places, where no such remedial education is necessary, even if the rents are higher.

Why Real Property Owners Should Strongly Support Improved School Systems

Faced by this situation, it may seem natural for owners of real property to resist paying higher taxes to improve their local school systems. But that response would be short-sighted and foolish in the extreme for owners of all types of real estate, including single-family homes. More than any other type of investment, every real estate investment is "locked in" the specific spot on the globe where the property concerned is located. Therefore, the long-run prosperity — and market value — of every property depends on the long-run economic viability of the general area in which it is located.

A key ingredient in that area's long-run viability is the quality of the labor force that firms located there are able to tap to staff their activities. If that quality is high, firms will be motivated to enter the area and to remain there once they have entered. Hence, they will tend to accommodate their natural expansion within that area. And the expansion of firms already located in each metropolitan area, or newly founded there, is responsible for more than 90% of the economic growth that occurs there, on average.

But if the quality of an area's labor force is low, the area's overall ability to attract new firms and retain existing ones will deteriorate. Over the long run, that change will weaken the demand for whatever real property is located there. Moreover, the importance of the quality of the labor force as a locational factor is going to increase in the future because of rising demands for worker skills in a world of high technology.

Therefore, the owners of all types of real properties, from single-family homes to regional shopping centers, should welcome efforts to improve the quality of the labor force in their areas, even if those efforts translate into higher property taxes. In fact, they should encourage local school officials to raise taxes to improve the quality of the educational performance.

Moreover, the high stake that real property owners have in that educational performance means that their interest in the local school systems should not stop with concerns about financing them. Those owners should also take active roles in insuring that local school systems use whatever resources they receive effectively to achieve improved educational performance. Thus, real estate owners should perform active roles in watching over and participating in the citizen management of their local school systems. Such roles could include serving on local school boards, participating in parent/teacher organizations, sponsoring studies that monitor and evaluate local school system performance, and working with high schools to provide guaranteed jobs in property management and maintenance or other facets of real estate for students who graduate successfully. After all, no one in any community has a greater stake in the quality of its schools and their students than the people who own real estate there. Improving that quality should be a top-priority objective of every real estate owner — especially owners in those large cities where the area's future prosperity is most threatened by the deterioration in such quality.

* * * * *

© Salomon Brothers Inc 1988

Although the information in this report has been obtained from sources which Salomon Brothers Inc believes to be reliable, we do not guarantee its accuracy, and such information may be incomplete or condensed. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Salomon Brothers Inc

Salomon Brothers Inc

New York
One New York Plaza
NY, NY 10004 USA
Tel. (212) 747-7000
Tlx. 222428

Atlanta	*(404) 827-7600*
Boston	*(617) 357-6200*
Chicago	*(312) 876-8700*
Dallas	*(214) 880-7300*
Los Angeles	*(213) 253-2200*
San Francisco	*(415) 951-1777*

Frankfurt

Salomon Brothers AG
P.O. Box 16 06 54
Wiesenhuttenstrasse 10
6000 Frankfurt Am Main 1
West Germany
Tel. 69-2607-0
Tlx. 4189107

London

Salomon Brothers International Limited
Salomon Brothers U.K. Limited
Salomon Brothers U.K. Equity, Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W OSB, England
Tel. 441-721-2000
Tlx. 886441

Tokyo

Salomon Brothers Asia Ltd.
Ark Mori Bldg.
9th Floor
12-32, Akasaka 1-Chome Minato-Ku, Tokyo
107 Japan
Tel. 81-3-589-9111
Tlx. 27980

Zurich

Stadelhoferstrasse 22
8024 Zurich, Switzerland
Tel. 411-251-5137
Tlx. 816755

First Class Mail
US Postage
Paid
N.Y., N.Y.
Permit No 8155

NZC
(118)